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Fiscal Note

Fiscal Services Division

HF 636 – Urban Revitalization, Vacant Commercial Property (LSB 2410HV)
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Fiscal Note Version – New

Description

House File 636 provides three new property tax exemption schedules for qualified vacant buildings located within Urban Revitalization areas (Iowa Code Chapter 404). A 15-year phase-in schedule for new taxable value is created for qualified vacant property along with an alternate five-year 100% exemption schedule. For the same properties that meet specified environmental construction standards, a five-year, 100.0% exemption followed by a five-year phase-in schedule is also created.

To qualify for the five-year and 15-year schedules the property most be vacant for at least six consecutive months and be vacant at the time of the application for exemption. The property must also meet one of the following additional criteria:

- The assessed value of the property has declined during the vacant period.
- The property attracts unauthorized residential or transient use, trash disposal, or parking.
- The property is determined to contain one or more nuisances under Code Chapter 657 or Section 657A.1(7).

To qualify for the ten-year schedule, the property must also meet the Leadership in Energy and Environmental Design (LEED) Gold Standard (or comparable national standard) for environmental construction.

The change is effective on enactment.

Background

Current law contains several options for partially exempting new commercial value, including:

- A ten-year phase-in starting at 80.0% exemption for the first year and reaching 20.0% exemption for years nine and 10 (Code Section 404.3(2)).
- A 100.0% exemption for three years (Code Section 404.3(3)).
- A 100.0% exemption for 10 years if at least 75.0% of the commercial space is devoted to housing (Code Section 404.3(4)).
- A 15-year phase-in for abandoned property of any class starting at 80.0% exemption for the first year and reaching 20.0% exemption for years 13 through 15 (Code Section 404.3B(2)).
- A 100.0% exemption for five years for abandoned property of any class (Code Section 404.3B(3)).

According to a Department of Revenue report on the statewide value of partial exemptions, for FY 2012, a total of $488.4 million in commercial property assessed value is exempt under various provisions of Code Chapter 404.

Assumptions

- For vacant commercial property that is being renovated to be at least 75.0% residential, the current ten-year 100.0% schedule is more beneficial than any schedule contained in HF 636.
- For nonresidential commercial renovations, the schedules in HF 636 are more beneficial to the owner, unless the property is abandoned. In that case, the non-LEED schedules in HF 636 are the same as current law.
- For vacant commercial buildings renovated to meet LEED construction standards, the schedule in HF 636 will be more beneficial than all but the commercial renovations for residential purposes.
- The additional exemption schedules in HF 636 will increase exempt property under Code Chapter 404 by 1.5% per year for seven years. After seven years, new property value exempted will equal the value of property rolling off of exempt status.
- The statewide average consolidated tax rate for commercial property is equal to $39.00 per thousand for FY 2014, and of that amount, $5.40 per thousand funds the Uniform Levy for school finance. The average consolidated rate is assumed to increase 1.0% per year.
- The change will first impact assessment year 2012 (FY 2014).

Fiscal Impact

House File 636 will increase the cost to the General Fund for the State School Aid appropriation and decrease local tax collections by the amounts beginning in FY 2014 as listed in the following table.

	Exempt Property Value	Consolidated Tax Rate	Uniform Levy	School Aid Increase	Local Property Tax Decrease	Property Tax Reduction
FY 2014	$ 7,326,000	$ 39.00	$ 5.40	$ 40,000	$ 246,000	$ 286,000
FY 2015	14,652,000	39.39	5.40	79,000	498,000	577,000
FY 2016	21,978,000	39.78	5.40	119,000	755,000	874,000
FY 2017	29,304,000	40.18	5.40	158,000	1,019,000	1,177,000
FY 2018	36,630,000	40.58	5.40	198,000	1,289,000	1,487,000
FY 2019	43,956,000	40.99	5.40	237,000	1,565,000	1,802,000
FY 2020	51,282,000	41.40	5.40	277,000	1,846,000	2,123,000
FY 2021	51,282,000	41.81	5.40	277,000	1,867,000	2,144,000

Sources

Department of Revenue report on partial exemption values
Legislative Services Agency analysis

/s/ Holly M. Lyons

March 23, 2011

The fiscal note for this bill was prepared pursuant to **Joint Rule 17** and the correctional and minority impact statements were prepared pursuant to Code **Section 2.56**. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.